

**ORANGE COUNTY
TRANSPORTATION AUTHORITY
Orange, California**

Single Audit Report on
Federal Awards

Year Ended June 30, 2009

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ORANGE COUNTY TRANSPORTATION AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	10



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2009, which collectively comprise OCTA's basic financial statements and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered OCTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects OCTA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of OCTA's financial statements that is more than inconsequential will not be prevented or detected by OCTA's internal control. We consider item number 09-01 described

Board of Directors
Orange County Transportation Authority
Orange, California

in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by OCTA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of OCTA and is not intended to be and should not be used by anyone other than these specified parties.



Irvine, California
October 28, 2009



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Board of Directors
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Orange County Transportation Authority (OCTA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2009. OCTA's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of OCTA's management. Our responsibility is to express an opinion on OCTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of OCTA's compliance with those requirements.

In our opinion, OCTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Board of Directors
Orange County Transportation Authority
Orange, California

Internal Control Over Compliance

The management of OCTA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered OCTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over compliance.

A control deficiency in OCTA's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects OCTA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by OCTA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by OCTA's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of OCTA as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise OCTA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Board of Directors
Orange County Transportation Authority
Orange, California

This report is intended for the information and use of the Board of Directors, management of OCTA, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Holtzman M. C. P. C.

Irvine, California
December 11, 2009, except for the Schedule of Expenditures of Federal Awards, as to which
the date is October 28, 2009

ORANGE COUNTY TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Financial Assistance Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Federal Transit Cluster:				
Federal Transit - Capital Investment Grants	20.500		\$ 5,093,417	219,867
Federal Transit - Formula Grants	20.507		<u>92,759,022</u>	<u>1,765,887</u>
Total Federal Transit Cluster			<u>97,852,439</u> *	<u>1,985,754</u>
Passed through State of California, Department of Transportation:				
Highway Planning and Construction:				
SR 22 from I-405 to SR 55	20.205	CMLN-6071(035)	14,263,336	
Beach Blvd. @ I-405 Interchange, I-405 from LA to SR 73	20.205	CMLN-6071(041),(043)	<u>699,039</u>	
Total Highway Planning and Construction			<u>14,962,375</u> *	<u>-</u>
Total U.S. Department of Transportation			<u>112,814,814</u>	<u>1,985,754</u>
<u>U.S. Department of Homeland Security</u>				
Passed through State of California,				
Office of Emergency Services:				
Rail and Transit Security Grant Program	97.075		<u>1,155,052</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>1,155,052</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through County of Orange				
Community Services Agency:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	22-0203	<u>317,792</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>317,792</u>	<u>-</u>
Total federal expenditures			<u>\$ 114,287,658</u>	<u>\$ 1,985,754</u>

* Major Programs

See Note to Schedule of Expenditures of Federal Awards

ORANGE COUNTY TRANSPORTATION AUTHORITY

Note to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(1) **Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

(a) **Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the Orange County Transportation Authority (OCTA) that are reimbursable under federal programs of federal financial assistance. For the purpose of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by OCTA from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) **Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when OCTA becomes obligated for payment as a result of the receipt of the related goods and services. The reported expenditures include any property or equipment acquisitions incurred under the federal program.

(c) **Subrecipients**

OCTA made payments to subrecipients totaling \$1,985,754 during the fiscal year ended June 30, 2009.

ORANGE COUNTY TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. The audit disclosed one significant deficiency and no material weaknesses in internal control over financial reporting.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no significant deficiencies and no material weaknesses in internal control over the major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were: CFDA No. 20.500, U.S. Department of Transportation – Capital Investment Grants; CFDA No. 20.507, U.S. Department of Transportation – Federal Transit – Formula Grants; and CFDA No. 20.205, U.S. Department of Transportation – Highway Planning and Construction.
8. The dollar threshold used to distinguish Type A and Type B programs was \$3,428,630.
9. The auditee did not meet the criteria to be considered a low risk auditee for major program determination for the fiscal year ended June 30, 2009.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards (GAGAS)

(09-01) Need to Establish a Policy on Misconduct

As of and for the year ended June 30, 2009, OCTA did not have a written policy on misconduct. An effective method of communicating and reinforcing an antifraud culture within an organization is through the development of a policy on misconduct. A misconduct policy communicates to all employees the organizational position and

ORANGE COUNTY TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards (GAGAS) (Continued)

(09-01) Need to Establish a Policy on Misconduct (Continued)

policy on matters such as the following:

- Risks that the organization faces from fraud, abuse and other forms of misconduct;
- Effect of the Code of Conduct;
- Definitions of misconduct, including fraud and abuse;
- Employee's responsibility to report suspected misconduct (including an established reporting mechanism, such as a member of the Board of Directors, a consultant or advisor, hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations

Best practice suggests that a misconduct policy and its annual reaffirmation by employees will greatly strengthen internal controls to prevent the occurrence of fraud and abuse. The policy should be acknowledged and signed by each employee upon hire and on an annual basis as evidence of their affirmation that they understand the policy and have complied with its provisions. This condition was previously reported as finding number 08-04 for the fiscal year ended June 30, 2008 in our report dated October 24, 2008.

Recommendation

No recommendation is necessary. The Board of Directors approved OCTA's Code of Conduct policy at its meeting of July 13, 2009.

ORANGE COUNTY TRANSPORTATION AUTHORITY

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2009

Status of Prior Year Audit Findings:

- (8-01) Need to Strengthen Controls of Third-Party Contractor - Resolved
- (8-02) Internal Controls over the Combined Transportation Funding Program - Resolved
- (8-03) Communication of Financial Information to the Appropriate Department - Resolved
- (8-04) Need to Establish a Policy of Misconduct – See current year finding 09-01
- (8-05) Need to Adhere to Buy America Requirements – Resolved